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C O N F I D E N T I A L SECTION 01 OF 03 DOHA 000135

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TAGS: [ECON](#) [EINV](#) [EFIN](#) [ENRG](#) [EPET](#) [QA](#)
SUBJECT: QATAR STILL FLYING HIGH AS THE WORLD ECONOMY TURNS
DOWN

Classified By: Amb. Joseph LeBaron for Reasons 1.4 (b) and (d).

(C) KEY POINTS

-- Qatar could be the fastest growing economy in the world in 2009, at about 10 percent, due to surging natural gas exports.

-- Nevertheless, the global financial and economic crisis has had a (manageable) impact here: a weakened banking sector; sharply lower real estate and stock markets; a considerably softer labor market; and a much more cautious sovereign wealth fund, the Qatar Investment Authority (QIA), which has adopted a passive approach internationally while shoring up Qatari banks domestically.

-- The government, whose economic activity accounts for perhaps 60-70 percent of Qatar's GDP, is planning an expansionary fiscal policy. It may be forced to bail out Qatari citizens carrying too much debt. It has the revenue to do both without recourse to borrowing.

(C) COMMENT

-- Ramping liquefied natural gas (LNG) production positions tiny Qatar to more than offset revenue reductions from commodity price declines during the global economic crisis. Relative to others in the region now feeling the crisis acutely, Qatar should fare well in 2009 and beyond.

-- Its increasing global role as a swing gas supplier is undeniable. In December, Qatar was selected to host the Secretariat for the emboldened Gas Exporting Countries Forum. Qatar's increasing exports and LNG capacity are driving the development of a bigger, but more volatile, global gas market.

-- Qatar's excess capital will become an increasingly sought-after resource during the financial crisis. QIA is positioned to emerge as a key global investor as it benefits from excess gas revenues in years to come.

End Key Points and Comment.

Effects of the Financial and Economic Crisis on Qatar

1. (C) Qatar's banking sector is minimally exposed to the subprime mortgage crisis. But it has been affected by the global financial crisis. Domestic liquidity has tightened. Some banks over-extended through easy credit to Qataris and expats. Lending has dried up considerably, and interest

rates are up as banks compete for deposits. Qatar's sovereign wealth fund, the Qatar Investment Authority (QIA), has begun shoring up local banks by taking 10-20 percent equity stakes.

¶2. (C) The real-estate market is softening. Real estate brokers are focusing on leasing as prospective buyers find it difficult to obtain loans. Land and rental prices have fallen, particularly at the high-end of the market.

¶3. (C) A possible outflow of expatriates and a drop in business activity would reduce demand further, putting downward pressure on asset prices. Although Doha differs substantially from Dubai, Qatar is subject to some of the same market forces undermining Dubai's real estate sector, primarily excessive speculative demand.

¶4. (C) The labor market is witnessing a correction. Qatar Steel Company has reportedly laid off 1,000 employees as demand from its Indian and Chinese customers dries up. Other "Q" companies (parastatals), such as Qatar Fertilizer, have seen the value of their product drop by one-half to two-thirds globally, forcing a cancellation of some expansion plans.

¶5. (C) Stock market prices have dropped. The Doha Securities Market (DSM) was down 40 percent in 2008 after posting strong gains earlier in the year.

Now the Good News

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¶6. (C) All this bad news is more than offset by the good news. The government had an estimated USD 36 billion current account surplus in 2008. It enjoys escalating revenues. It has hinted that its next annual budget will represent a double-digit increase in spending.

¶7. (C) This additional spending, if it materializes, will provide a stimulus that powers continued growth across all economic sectors.

¶8. (C) Note: Estimates vary, but government activity probably represents about two-thirds of Qatar's economy. In the first three quarters of 2008, Qatar's economy was already 12 percent larger than its economy in all of 2007, according to Qatar's Statistics Authority. Three-quarters of that growth was derived from the oil and gas sector. End Note.

¶9. (C) The Saudi American Bank (SAMBA) judged in a recent well-sourced report that: "Qatar is projected to continue growing at around 10 percent in real terms in 2009...(making it) the fastest growing economy in the world" this year. A collection of other analytic pieces conclude that Qatar's surging natural gas exports, combined with strong government spending based on large external assets, will keep Qatar's economy humming at the macro level, despite the global economic downturn.

¶10. (C) The Amir speaks of "the power of the drop" and what he means is this: His country of only 225,000 native Qataris owns the third-largest natural gas reserves in the world. Through bold risk-taking during an energy investment-depressed environment in the 1990s, and strategic partnerships with international firms, tiny Qatar has catapulted itself to be the world's largest exporter of liquefied natural gas (LNG).

¶11. (C) And, by the way, Qatar can currently produce about 850,000 barrels per day of oil too - and that number is growing. Currently limited by a recent OPEC quota to 785,000 bpd, oil still accounts for about one-third of Qatar's GDP, and the country bases its budgetary predictions on the price

of oil (to which many gas contracts are tied or related). But 2007 was reportedly a tipping point, and Qatar now receives more of its revenue from gas than oil.

¶12. (C) Currently producing 31 million tons per annum (mta) of LNG, Qatar will more than double its output to 77 mta by 2010-2011, cementing its place as the world leader in this increasingly important part of the global gas market. All of this future production is already committed, and those contracts give Qatar considerable revenue no matter how global demand for gas fluctuates - "our customers can take or pay," Qatar's Energy Minister Abdullah al-Attiyah is quick to remind visitors, with a Cheshire grin.

A Longer Look: The Al Thanis are the State

¶13. (C) There is a blurred line between public funds and those of the ruling Al Thani family. There is little sense within the top Al Thani echelon that pursuing public and private interests simultaneously represents any sort of "conflict." These conflicts of interest, backed by a lack of transparency across the economy, present a clear danger for the country over the long-term, as public and private interests become increasingly intertwined.

¶14. (C) Qatari officials know that rhetoric about transparency, corporate governance, and the rule of law sells well internationally and can help burnish Qatar's reputation, even if actual implementation falls short. To wit, Doha hosted this month the biannual conference of the Extractive Industries Transparency Initiative (EITI), though it had previously shown little interest in joining the initiative itself (more on this conference septel). Qatari officials apparently see no contradiction between hosting an event the substance of which contradicts Qatar's foreign policies, domestic policies, or both.

¶15. (C) Qatar hosts every year, for example, a multilateral forum on democracy promotion, though Qatar is, of course, a hereditary monarchy. In fact, several international conferences on democracy and development have been held here, but the development of democracy in Qatar itself is painfully slow and fitful.

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¶16. (C) Further giving a sense of having fallen down the rabbit hole: Qatar fares well under Transparency International's annual index. But Qatar's budget and its sovereign wealth fund are anything but transparent.

¶17. (C) But transparent or not, democratic or not, Qatar and its capital are increasingly sought after in a world where cash is more than ever king. The managers of Qatar's sovereign wealth fund might be fence-sitting and internally focused, but they and the country they represent are poised to emerge as important players in the global economy, especially as Qatar benefits from ramping gas revenues in the years ahead.

LeBaron